

Ringgold County Hospital

Accountants' Report and Financial Statements

June 30, 2006 and 2005



Ringgold County Hospital

June 30, 2006 and 2005

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees
Ringgold County Hospital
Mount Ayr, Iowa

We have audited the accompanying balance sheets of Ringgold County Hospital as of June 30, 2006 and 2005, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ringgold County Hospital as of June 30, 2006 and 2005, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2006, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the Hospital's basic financial statements. The accompanying supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

/s/ **BKD, LLP**

Kansas City, Missouri
September 27, 2006

Ringgold County Hospital

Management's Discussion and Analysis

Years Ended June 30, 2006 and 2005

Introduction

This management's discussion and analysis of the financial performance of Ringgold County Hospital (the "Hospital") provides an overview of the Hospital's financial activities for the years ended June 30, 2006 and 2005. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash and noncurrent investments decreased in 2006 and 2005 by \$184,377 and \$400,571, or 20% and 31%, respectively.
- The Hospital's net assets increased in 2006 by \$39,686 or 1% and decreased in 2005 by \$762,720 or 17%.
- The Hospital reported operating losses in 2006 (\$648,030), 2005 (\$1,428,197) and 2004 (\$921,107). The operating loss in 2006 decreased by \$780,167, or 55% from the operating loss reported in 2005. The operating loss in 2005 increased \$507,590 over the operating loss reported in 2004.

Using This Annual Report

The Hospital's financial statements consist of three statements—a balance sheet, a statement of revenues, expenses and changes in net assets and a statement of cash flows. These statements provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Hospital is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Assets

One of the most important questions asked about any Hospital's finances is "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Assets report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net assets and changes in them. The Hospital's total net assets—the difference between assets and liabilities—is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net assets are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the Hospital.

The Statement of Cash Flows

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

The Hospital's Net Assets

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet. The Hospital's net assets increased by \$39,686 or 1% in 2006 over 2005 as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	2006	2005	2004
Assets			
Patient accounts receivable, net	\$ 1,477,807	\$ 1,124,657	\$ 1,426,424
Other current assets	1,100,950	1,120,013	1,243,860
Capital assets, net	3,033,437	3,185,375	3,257,522
Other noncurrent assets	<u>460,718</u>	<u>580,321</u>	<u>910,311</u>
Total assets	<u>\$ 6,072,912</u>	<u>\$ 6,010,366</u>	<u>\$ 6,838,117</u>
Liabilities			
Long-term debt	\$ 447,638	\$ 752,404	\$ 893,058
Other current and noncurrent liabilities	<u>1,856,519</u>	<u>1,528,893</u>	<u>1,453,270</u>
Total liabilities	<u>2,304,157</u>	<u>2,281,297</u>	<u>2,346,328</u>
Net Assets			
Invested in capital assets, net of related debt	2,414,653	2,432,971	2,364,464
Unrestricted	<u>1,354,102</u>	<u>1,296,098</u>	<u>2,127,325</u>
Total net assets	<u>3,768,755</u>	<u>3,729,069</u>	<u>4,491,789</u>
Total liabilities and net assets	<u>\$ 6,072,912</u>	<u>\$ 6,010,366</u>	<u>\$ 6,838,117</u>

A significant element of the Hospital's assets is patient accounts receivable. The Hospital's patient accounts receivable increased by \$353,150 (31%) at June 30, 2006, as compared to June 30, 2005. In 2005, the Hospital's patient accounts receivable decreased by \$301,767 (21%) as compared to 2004. Part of the increase in patient accounts receivable in 2006 is due to the increase in net patient service revenue of \$1,364,982 (18%) as compared to 2005 and the decrease in net patient service revenue of \$807,896 in 2005 as compared to 2004.

Operating Results and Changes in the Hospital's Net Assets

In 2006, the Hospital's net assets increased by \$39,686 or 1%, as shown in Table 2. This increase is made up of several different components discussed below and was an improvement compared to the decrease in net assets for 2005 of \$762,720.

Table 2: Operating Results and Changes in Net Assets

	2006	2005	2004
Operating Revenues			
Net patient service revenue, net of 2006 and 2005 provisions for uncollectible accounts of \$360,588 and \$148,880, respectively	\$ 8,726,229	\$ 7,361,247	\$ 8,169,143
Other	<u>116,680</u>	<u>81,332</u>	<u>99,427</u>
Total operating revenues	<u>8,842,909</u>	<u>7,442,579</u>	<u>8,268,570</u>
Operating Expenses			
Nursing services	1,313,868	1,204,111	1,234,935
Other professional services	5,109,698	4,971,464	5,162,852
General services	754,474	669,537	643,526
Administrative and fiscal services	1,994,118	1,685,286	1,824,499
Depreciation	<u>318,781</u>	<u>340,378</u>	<u>323,865</u>
Total operating expenses	<u>9,490,939</u>	<u>8,870,776</u>	<u>9,189,677</u>
Operating Loss	<u>(648,030)</u>	<u>(1,428,197)</u>	<u>(921,107)</u>
Nonoperating Revenues (Expenses)			
County taxes	666,301	664,915	662,835
Investment income	24,053	14,599	21,550
Interest expense	(35,159)	(42,354)	(49,107)
Noncapital gifts	1,288	3,486	3,849
Rental income	<u>31,233</u>	<u>24,831</u>	<u>27,986</u>
Total nonoperating revenues	<u>687,716</u>	<u>665,477</u>	<u>667,113</u>
Increase (Decrease) in Net Assets	<u>\$ 39,686</u>	<u>\$ (762,720)</u>	<u>\$ (253,994)</u>

Operating Losses

The first component of the overall change in the Hospital's net assets is its operating income or loss—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In 2006, 2005 and 2004, the Hospital has reported an operating loss. However, 2006 showed a marked turnaround in operations due to the change in the Hospital's status to Critical Access Hospital and conversion of the Mount Ayr Medical Clinic to provider-based status under the Medicare program.

The Hospital was formed and is operated to serve residents of Ringgold County and the surrounding area. The Hospital levies county taxes to provide additional resources to enable the facility to serve lower income and other residents.

The conversion to a Critical Access Hospital and conversion to a provider-based clinic changed the reimbursement methodology for the Hospital and Clinic, which contributed to the improvement in the operating loss in 2006.

The operating loss for 2006 decreased by \$780,167, or 55%, as compared to 2005. The primary components of the decreased operating loss are:

- An increase in net patient service revenue, net of provision for uncollectible accounts, of \$1,364,982 or 18%.

Net patient service revenue increased, in part, because of an increase in patient utilization from 2005 to 2006. This increase resulted from a combination of factors, including the Hospital's surgeon was on a leave of absence for a significant portion of 2005 and was back to full time status during all of 2006.

During 2005, net patient service revenue decreased, in part, because of a decline in patient days of 515 (20%) from 2004 to 2005. This decline resulted from a combination of factors, including the Hospital's surgeon was on a leave of absence for a significant portion of 2005.

Other factors impacting the change in net patient service revenue include commercial insurance carriers continuing to expect larger and larger discounts on services provided under preferred provider contracts, and the changes in payments from the Medicare program for both outpatient and provider-based clinic services.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of county taxes and investment income and interest expense, all of which remained relatively constant in 2006, 2005 and 2004. With nonoperating funds invested in certificates of deposit, the Hospital's investment return has improved due to increasing interest rates. Also, the investment options of the Hospital are severely limited due to the governmental status of the Hospital, which prevents the Hospital from investing in alternative arrangements with more favorable returns.

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in operating losses and nonoperating revenues and expenses, discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At the end of 2006, the Hospital had \$3,033,437 invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2006, the Hospital purchased new capital assets costing \$167,139. During 2005, \$271,296 was spent to acquire new capital assets.

At the end of 2005, the Hospital had \$3,185,375 invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2005, the Hospital purchased new capital assets costing \$271,296. During 2004, \$355,320 was spent to acquire new capital assets.

Debt

At June 30, 2006 and 2005, the Hospital had \$447,638 and \$752,404, respectively, in long-term debt outstanding. The Hospital issued no new debt in 2006 and 2005.

Other Economic Factors

The single largest economic factor affecting the Hospital is the aging, declining population of its service area. As the remaining population ages and median income decreases, the Hospital treats a larger and larger percentage of Medicare and Medicaid patients, thus, increasing the Hospital's reliance on those programs' payment systems for a majority of its reimbursement.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital Business Administration by telephoning (641) 464-3226.

Ringgold County Hospital

Balance Sheets

June 30, 2006 and 2005

Assets

	<u>2006</u>	<u>2005</u>
Current Assets		
Cash	\$ 251,833	\$ 316,607
Patient accounts receivable, net of allowance; 2006 – \$530,000, 2005 – \$338,101	1,477,807	1,124,657
County taxes receivable	669,034	650,499
Other receivables	2,267	9,601
Supplies	130,636	124,114
Prepaid expenses	<u>47,180</u>	<u>19,192</u>
Total current assets	<u>2,578,757</u>	<u>2,244,670</u>
Noncurrent Investments		
Internally designated	<u>450,397</u>	<u>570,000</u>
Capital Assets, Net	<u>3,033,437</u>	<u>3,185,375</u>
Other Assets		
Assets managed by the South Central Iowa Community Foundation	<u>10,321</u>	<u>10,321</u>
Total assets	\$ <u><u>6,072,912</u></u>	\$ <u><u>6,010,366</u></u>

Liabilities and Net Assets

	2006	2005
Current Liabilities		
Current maturities of long-term debt	\$ 156,918	\$ 149,555
Accounts payable	192,378	119,127
Accrued salaries and payroll taxes	302,408	287,135
Estimated self-insurance costs	60,510	40,000
Accrued compensated absences	387,062	396,720
Estimated amounts due to third-party payers	105,000	50,000
Deferred revenue for county taxes	<u>652,243</u>	<u>635,911</u>
Total current liabilities	1,856,519	1,678,448
Long-term Debt	<u>447,638</u>	<u>602,849</u>
Total liabilities	<u>2,304,157</u>	<u>2,281,297</u>
Net Assets		
Invested in capital assets, net of related debt	2,414,653	2,432,971
Unrestricted	<u>1,354,102</u>	<u>1,296,098</u>
Total net assets	<u>3,768,755</u>	<u>3,729,069</u>
Total liabilities and net assets	<u>\$ 6,072,912</u>	<u>\$ 6,010,366</u>

Ringgold County Hospital
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Operating Revenues		
Net patient service revenue, net of 2006 and 2005 provisions for uncollectible accounts of \$360,588 and \$148,880, respectively	\$ 8,726,229	\$ 7,361,247
Other	<u>116,680</u>	<u>81,332</u>
Total operating revenues	<u>8,842,909</u>	<u>7,442,579</u>
Operating Expenses		
Nursing services	1,313,868	1,204,111
Other professional services	5,109,698	4,971,464
General services	754,474	669,537
Administrative and fiscal services	1,994,118	1,685,286
Depreciation	<u>318,781</u>	<u>340,378</u>
Total operating expenses	<u>9,490,939</u>	<u>8,870,776</u>
Operating Loss	<u>(648,030)</u>	<u>(1,428,197)</u>
Nonoperating Revenues (Expenses)		
County taxes	666,301	664,915
Investment income	24,053	14,599
Interest expense	(35,159)	(42,354)
Noncapital gifts	1,288	3,486
Rental income	<u>31,233</u>	<u>24,831</u>
Total nonoperating revenues	<u>687,716</u>	<u>665,477</u>
Increase (Decrease) in Net Assets	39,686	(762,720)
Net Assets, Beginning of Year	<u>3,729,069</u>	<u>4,491,789</u>
Net Assets, End of Year	<u>\$ 3,768,755</u>	<u>\$ 3,729,069</u>

Ringgold County Hospital

Statements of Cash Flows

Years Ended June 30, 2006 and 2005

	2006	2005
Operating Activities		
Receipts from and on behalf of patients	\$ 8,428,079	\$ 7,755,071
Payments to suppliers and contractors	(4,673,796)	(4,384,908)
Payments to employees	(4,425,854)	(4,102,192)
Other receipts, net	<u>116,981</u>	<u>84,397</u>
Net cash used in operating activities	<u>(554,590)</u>	<u>(647,632)</u>
Noncapital Financing Activities		
County taxes supporting operations	664,098	658,908
Noncapital gifts	<u>1,288</u>	<u>3,486</u>
Net cash provided by noncapital financing activities	<u>665,386</u>	<u>662,394</u>
Capital and Related Financing Activities		
Rental income	31,233	24,831
Principal paid on long-term debt	(147,848)	(140,654)
Interest paid on long-term debt	(35,159)	(42,354)
Purchase of capital assets	<u>(167,144)</u>	<u>(271,296)</u>
Net cash used in capital and related financing activities	<u>(318,918)</u>	<u>(429,473)</u>
Investing Activities		
Interest on investments	23,745	14,140
Purchase of investments	(1,020,397)	(1,410,000)
Proceeds from maturity of investments	<u>1,140,000</u>	<u>1,740,000</u>
Net cash provided by investing activities	<u>143,348</u>	<u>344,140</u>
Decrease in Cash	(64,774)	(70,571)
Cash, Beginning of Year	<u>316,607</u>	<u>387,178</u>
Cash, End of Year	<u><u>\$ 251,833</u></u>	<u><u>\$ 316,607</u></u>
Reconciliation of Net Operating Loss to Net Cash Used in Operating Activities		
Operating loss	\$ (648,030)	\$ (1,428,197)
Depreciation	318,781	340,378
Loss on disposition of property and equipment	301	3,065
Changes in operating assets and liabilities		
Patient accounts receivable, net	(353,150)	301,767
Supplies and prepaid expenses	(26,868)	24,086
Estimated amounts due from third-party payers	55,000	92,057
Accounts payable and accrued expenses	<u>99,376</u>	<u>19,212</u>
Net cash used in operating activities	<u><u>\$ (554,590)</u></u>	<u><u>\$ (647,632)</u></u>

Ringgold County Hospital

Notes to Financial Statements

June 30, 2006 and 2005

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Ringgold County Hospital ("Hospital") is an acute care hospital located in Mount Ayr, Iowa. The Hospital is a county public hospital organized under Chapter 347 of the Code of Iowa. The Hospital primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Ringgold County area.

Basis of Accounting and Presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally federal and state grants and county tax revenues) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific, such as county taxes, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The Hospital prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, and do not conflict with or contradict GASB pronouncements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

County Taxes

Annually, during March, the Hospital's Board of Trustees adopts a budget for the next fiscal year and approves a tax levy based on the taxable valuation of all taxable property of Ringgold County on January 1 of the prior calendar year. After completion of a public hearing on the tax levy, taxes are received in installments the following September and March. Taxes become delinquent after March 31 of the following year. Revenue from county taxes is recognized in the year for which the taxes are levied.

Ringgold County Hospital

Notes to Financial Statements

June 30, 2006 and 2005

During the years ended June 30, 2006 and 2005, the Hospital received approximately 7% and 8%, respectively, of its financial support from county taxes. Such funds were used exclusively to support operations.

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The Hospital is self-insured for a portion of its exposure to risk of loss from employee health claims. Annual estimated provisions are accrued for the self-insured portion of employee health claims and include an estimate of the ultimate costs for both reported claims and any claims incurred but not yet reported.

Investments and Investment Income

Investments in non-negotiable certificates of deposit are carried at amortized cost. Investment income includes interest income.

Patient Accounts Receivable

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Supplies

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method, or market.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation, if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Hospital:

Land improvements	15 – 20 years
Buildings and leasehold improvements	20 – 40 years
Equipment	4 – 10 years

Ringgold County Hospital

Notes to Financial Statements

June 30, 2006 and 2005

Compensated Absences

Hospital policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as benefits are earned. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Net Assets

Net assets of the Hospital are classified in two components. Net assets invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt.

Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Income Taxes

As a county public hospital, the Hospital is exempt from federal and state income taxes under the Internal Revenue Code and state law. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

Reclassifications

Certain reclassifications have been made to the 2005 financial statements to conform to the 2006 presentation. The reclassifications had no effect on the changes in financial position.

Ringgold County Hospital

Notes to Financial Statements

June 30, 2006 and 2005

Note 2: Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. These payment arrangements include:

Medicare. Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient skilled nursing services are paid at prospectively determined per diem rates that are based on the patients' acuity. Certain inpatient nonacute services and defined medical education costs are paid based on a cost reimbursement methodology. On October 1, 2005, the Hospital was designated as a Critical Access Hospital (CAH). Under this designation, the Hospital is paid on a cost reimbursement methodology. The Hospital is reimbursed for certain services at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Fiscal Intermediary. Estimated settlements have been reflected in the accompanying financial statements.

Medicaid. Inpatient and outpatient services rendered to Medicaid Program beneficiaries were reimbursed based upon a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate with the final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid Program.

Approximately 69% and 63% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2006 and 2005, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Note 3: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. The Hospital's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance and the State of Iowa Sinking Fund in accordance with Chapter 12C of the Code of Iowa. The Code of Iowa provides for additional assessments against depositories to ensure there will be no loss of public funds.

Ringgold County Hospital

Notes to Financial Statements

June 30, 2006 and 2005

At June 30, 2006 and 2005, the Hospital had bank balances of \$863,211 and \$1,024,535, respectively, and carrying balances of \$702,230 and \$886,607, respectively, none of which were exposed to custodial credit risk.

Investments

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities, certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees, prime eligible bankers acceptances, certain high rated commercial paper, perfected repurchase agreements, certain registered open-end management investment companies, certain joint investment trusts and warrants or improvement certificates of a drainage district. The Hospital had no investments at June 30, 2006 and 2005.

The carrying value of deposits are included in the balance sheets as follows:

	2006	2005
Cash	\$ 251,833	\$ 316,607
Noncurrent investments	<u>450,397</u>	<u>570,000</u>
	<u>\$ 702,230</u>	<u>\$ 886,607</u>

Note 4: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at June 30, 2006 and 2005, consisted of:

	2006	2005
Medicare	\$ 651,615	\$ 513,661
Medicaid	98,176	37,068
Other third-party payers	569,506	429,699
Patients	<u>688,510</u>	<u>482,330</u>
	2,007,807	1,462,758
Less allowance for uncollectible accounts	<u>530,000</u>	<u>338,101</u>
	<u>\$ 1,477,807</u>	<u>\$ 1,124,657</u>

Ringgold County Hospital

Notes to Financial Statements

June 30, 2006 and 2005

Note 5: Capital Assets

Capital assets activity for the years ended June 30, 2006 and 2005, were:

	2006				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 127,004	\$ —	\$ —	\$ —	\$ 127,004
Land improvements	304,625	—	—	—	304,625
Buildings and improvements	2,724,417	—	—	—	2,724,417
Fixed equipment	1,630,443	4,370	—	—	1,634,813
Major moveable equipment	1,983,223	150,636	33,571	—	2,100,288
Construction in progress	—	12,133	—	—	12,133
	<u>6,769,712</u>	<u>167,139</u>	<u>33,571</u>	<u>0</u>	<u>6,903,280</u>
Less accumulated depreciation					
Land improvements	85,408	9,217	—	—	94,625
Buildings and leasehold improvements	1,292,300	39,610	—	—	1,331,910
Fixed equipment	874,559	15,816	—	—	890,375
Major moveable equipment	<u>1,332,070</u>	<u>254,133</u>	<u>33,270</u>	<u>—</u>	<u>1,552,933</u>
	<u>3,584,337</u>	<u>318,776</u>	<u>33,270</u>	<u>0</u>	<u>3,869,843</u>
Capital assets, net	<u>\$ 3,185,375</u>	<u>\$ (151,637)</u>	<u>\$ 301</u>	<u>\$ 0</u>	<u>\$ 3,033,437</u>

Ringgold County Hospital

Notes to Financial Statements June 30, 2006 and 2005

	2005				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 127,004	\$ —	\$ —	\$ —	\$ 127,004
Land improvements	197,734	106,891	—	—	304,625
Buildings and improvements	2,716,077	8,340	—	—	2,724,417
Fixed equipment	1,624,913	5,530	—	—	1,630,443
Major moveable equipment	<u>1,943,789</u>	<u>150,535</u>	<u>111,101</u>	<u>—</u>	<u>1,983,223</u>
	<u>6,609,517</u>	<u>271,296</u>	<u>111,101</u>	<u>0</u>	<u>6,769,712</u>
Less accumulated depreciation					
Land improvements	73,196	12,212	—	—	85,408
Buildings and leasehold improvements	1,193,211	99,089	—	—	1,292,300
Fixed equipment	726,512	148,047	—	—	874,559
Major moveable equipment	<u>1,359,076</u>	<u>81,030</u>	<u>108,036</u>	<u>—</u>	<u>1,332,070</u>
	<u>3,351,995</u>	<u>340,378</u>	<u>108,036</u>	<u>0</u>	<u>3,584,337</u>
Capital assets, net	\$ <u>3,257,522</u>	\$ <u>(69,082)</u>	\$ <u>3,065</u>	\$ <u>0</u>	\$ <u>3,185,375</u>

Note 6: Medical Malpractice Claims

The Hospital purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Note 7: Employee Health Claims

Substantially all of the Hospital's employees and their dependents are eligible to participate in the Hospital's employee health insurance plan. The Hospital is self-insured for health claims of participating employees and dependents up to an annual aggregate stop-loss amount. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount. A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that the Hospital's estimate will change by a material amount in the near term.

Ringgold County Hospital

Notes to Financial Statements

June 30, 2006 and 2005

Activity in the Hospital's accrued employee health claims liability during 2006 and 2005 is summarized as follows:

	<u>2006</u>	<u>2005</u>
Balance, beginning of year	\$ 40,000	\$ 40,000
Current year claims incurred and changes in estimates for claims incurred in prior years	376,665	293,334
Claims and expenses paid	<u>(356,155)</u>	<u>(293,334)</u>
Balance, end of year	\$ <u>60,510</u>	\$ <u>40,000</u>

Note 8: Long-term Obligations

The following is a summary of long-term obligation transactions for the Hospital for the years ended June 30, 2006 and 2005:

	2006				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Revenue capital loan notes	\$ 453,033	\$ —	\$ 92,577	\$ 360,456	\$ 98,686
Note payable	63,750	—	15,000	48,750	15,000
Lease purchase agreements	<u>235,621</u>	<u>—</u>	<u>40,271</u>	<u>195,350</u>	<u>43,232</u>
Total long-term debt	\$ <u>752,404</u>	\$ <u>0</u>	\$ <u>147,848</u>	\$ <u>604,556</u>	\$ <u>156,918</u>

	2005				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Revenue capital loan notes	\$ 540,886	\$ —	\$ 87,853	\$ 453,033	\$ 94,283
Note payable	78,750	—	15,000	63,750	15,000
Lease purchase agreements	<u>273,422</u>	<u>—</u>	<u>37,801</u>	<u>235,621</u>	<u>40,272</u>
Total long-term debt	\$ <u>893,058</u>	\$ <u>0</u>	\$ <u>140,654</u>	\$ <u>752,404</u>	\$ <u>149,555</u>

Ringgold County Hospital

Notes to Financial Statements June 30, 2006 and 2005

Revenue Capital Loan Notes

The revenue capital loan notes consist of Hospital Revenue Capital Loan Notes, Series 2000 (Notes), in the original amount of \$700,000 dated August 1, 1999, which bear interest at 5.25%. The Notes are payable in monthly installments of \$9,472 through December 2009. The Hospital is required to make monthly deposits to the debt service fund. The Notes are secured by the net revenues of the Hospital and a \$100,000 certificate of deposit.

The debt service requirements as of June 30, 2006, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2007	\$ 113,669	\$ 98,686	\$ 14,983
2008	113,669	102,332	11,337
2009	113,669	107,865	5,804
2010	<u>52,320</u>	<u>51,573</u>	<u>747</u>
	<u>\$ 393,327</u>	<u>\$ 360,456</u>	<u>\$ 32,871</u>

Note Payable

The note payable is due October 2009, with principal payable in quarterly installments of \$3,750. The note is noninterest bearing. The note is secured by a loan guaranty from Mercy Hospital Medical Center. The debt service requirements as of June 30, 2006, are as follows:

Year Ending June 30,	Total to be Paid	Principal
2007	\$ 15,000	\$ 15,000
2008	15,000	15,000
2009	15,000	15,000
2010	<u>3,750</u>	<u>3,750</u>
	<u>\$ 48,750</u>	<u>\$ 48,750</u>

Ringgold County Hospital

Notes to Financial Statements

June 30, 2006 and 2005

Lease Purchase Obligations

The Hospital is obligated under lease purchase agreements for equipment, due in monthly installments, including interest of 5.25% to 6.85%, through December 2010. The agreements are secured by equipment. The debt service requirements at June 30, 2006, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2007	\$ 54,338	\$ 43,232	\$ 11,106
2008	54,338	45,714	8,624
2009	54,338	48,709	5,629
2010	41,582	38,891	2,691
2011	<u>19,515</u>	<u>18,804</u>	<u>711</u>
	\$ <u>224,111</u>	\$ <u>195,350</u>	\$ <u>28,761</u>

Note 9: Operating Leases

The Hospital has a noncancellable operating lease for a computerized tomography (CT) scanner that expires in 2007. The lease requires contingent rental payments based on the number of CT scans performed each month with a maximum monthly rental of \$10,140.

Future minimum lease payments at June 30, 2006, were:

2007	\$ <u>81,120</u>
Future minimum lease payments	\$ <u>81,120</u>

Rental expense for all operating leases consisted of:

Minimum rentals	\$ 72,832
Contingent rentals	<u>118,521</u>
	\$ <u>191,353</u>

Ringgold County Hospital

Notes to Financial Statements

June 30, 2006 and 2005

Note 10: Pension Plan

Plan Description

The Hospital contributes to the Iowa Public Employees' Retirement System (IPERS), which is a cost-sharing, multiple-employer defined benefit pension plan administered by the state of Iowa. Pension expense is recorded for the amount the Hospital is contractually required to contribute for the year. IPERS provides retirement and death benefits, which are established by state statute, to plan members and their beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Funding Policy

Plan members are required to contribute 3.70% of their annual covered salary, and the Hospital is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The Hospital's contributions to IPERS for the years ended June 30, 2006, 2005 and 2004, were \$255,409, \$225,850 and \$218,959, respectively, which equaled the required contributions for each year.

Note 11: Related Party Transactions

Because of the existence of common management, Ringgold County Hospital and Mercy Hospital Medical Center (Medical Center) are related parties. The Hospital contracts with the Medical Center to provide management services, including the provision of an administrator for daily operating decisions. Other activities involving the Medical Center include the purchase of social service, dietician and human resources services.

Payments to the Medical Center totaled \$211,924 and \$178,919 for the years ended June 30, 2006 and 2005, respectively.

Note 12: Budget and Budgetary Accounting

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on a cash basis following required public notice and hearings for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Ringgold County Hospital

Notes to Financial Statements

June 30, 2006 and 2005

The following is a reconciliation between reported amounts and cash basis presentation as well as a comparison to budget for the year ended June 30, 2006:

	Accrual Basis	Accrual Adjustments	Cash Basis	Budget	Variance Favorable (Unfavorable)
Amount to be raised by taxation	\$ 666,301	\$ —	\$ 666,301	\$ 665,730	\$ 571
Other revenues/receipts	<u>9,155,790</u>	<u>(554,457)</u>	<u>8,601,333</u>	<u>9,706,212</u>	<u>(1,104,879)</u>
	9,822,091	(554,457)	9,267,634	10,371,942	(1,104,308)
Expenses/disbursements	<u>9,526,098</u>	<u>(72,508)</u>	<u>9,453,590</u>	<u>9,725,755</u>	<u>(272,165)</u>
	295,993	(481,949)	(185,956)	646,187	(832,143)
Balance, beginning of year	<u>3,729,069</u>	<u>(235,027)</u>	<u>3,494,042</u>	<u>2,550,804</u>	<u>943,238</u>
Balance, end of year	<u>\$ 4,025,062</u>	<u>\$ (716,976)</u>	<u>\$ 3,308,086</u>	<u>\$ 3,196,991</u>	<u>\$ 111,095</u>

Supplementary Information

Ringgold County Hospital
Patient Accounts Receivable and
Allowance for Uncollectible Accounts
June 30, 2006 and 2005

Patient Accounts Receivable

	2006		2005	
	Amount	Percent	Amount	Percent
Age of Accounts				
0 – 30 days	\$ 1,150,248	47.3%	\$ 1,123,547	55.1%
31 – 60 days	361,890	14.9	246,496	12.1
61 – 90 days	203,358	8.4	140,945	6.9
91 – 120 days	209,856	8.6	95,887	4.7
Over 120 days	<u>507,455</u>	<u>20.8</u>	<u>430,883</u>	<u>21.2</u>
	2,432,807	<u>100.0%</u>	2,037,758	<u>100.0%</u>
Allowance for contractual adjustments	<u>425,000</u>		<u>575,000</u>	
	2,007,807		1,462,758	
Less				
Allowance for uncollectible accounts	<u>530,000</u>		<u>338,101</u>	
	\$ <u>1,477,807</u>		\$ <u>1,124,657</u>	

Allowance for Uncollectible Accounts

	2006	2005
Balance, beginning of year	\$ 338,101	\$ 423,429
Provision for uncollectible accounts	360,588	148,880
Accounts written off	<u>(168,689)</u>	<u>(234,208)</u>
Balance, end of year	\$ <u>530,000</u>	\$ <u>338,101</u>

Ringgold County Hospital
Supplies and Prepaid Expenses
June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Supplies		
Medical supplies	\$ 52,133	\$ 53,906
Pharmacy	<u>78,503</u>	<u>70,208</u>
	\$ <u><u>130,636</u></u>	\$ <u><u>124,114</u></u>
Prepaid Expenses		
Insurance	\$ 35,419	\$ 17,513
Other	<u>11,761</u>	<u>1,679</u>
	\$ <u><u>47,180</u></u>	\$ <u><u>19,192</u></u>

Ringgold County Hospital
Other Revenue
Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Grant revenue	\$ 36,405	\$ 16,381
Meals sold to employees and guests	29,474	21,777
Contract laundry services	1,447	3,326
Loss on disposition of capital assets	(301)	(3,065)
Purchase discounts	11,571	11,019
Other	<u>38,084</u>	<u>31,894</u>
	\$ <u><u>116,680</u></u>	\$ <u><u>81,332</u></u>

Ringgold County Hospital
Net Patient Service Revenue
Years Ended June 30, 2006 and 2005

	Inpatient	2006 Outpatient	Total
Daily Patient Services			
Medical and surgical	\$ 411,848	\$ —	\$ 411,848
Swing bed	<u>85,880</u>	<u>—</u>	<u>85,880</u>
	<u>497,728</u>	<u>0</u>	<u>497,728</u>
Other Nursing Services			
Operating room	100,541	1,038,288	1,138,829
Recovery room	9,152	122,365	131,517
Central services and supply	93,038	351,354	444,392
Intravenous therapy	83,660	127,537	211,197
Emergency services	<u>12,986</u>	<u>580,257</u>	<u>593,243</u>
	<u>299,377</u>	<u>2,219,801</u>	<u>2,519,178</u>
Other Professional Services			
Laboratory	257,657	1,853,193	2,110,850
Transfusion service	21,606	14,082	35,688
Cardiology	16,528	205,667	222,195
Radiology	228,810	2,198,525	2,427,335
Ultrasound	—	—	0
Pharmacy	434,549	557,188	991,737
Respiratory therapy	85,500	178,501	264,001
Physical therapy	77,061	420,985	498,046
Anesthesiology	6,983	47,886	54,869
Ambulance service	3,508	357,673	361,181
Dialysis	—	739,210	739,210
Emergency room physicians	—	278,924	278,924
Clinics	<u>—</u>	<u>2,655,475</u>	<u>2,655,475</u>
	<u>1,132,202</u>	<u>9,507,309</u>	<u>10,639,511</u>
Gross Patient Service Revenue	<u>\$ 1,929,307</u>	<u>\$ 11,727,110</u>	<u>13,656,417</u>
Less Allowances and Provision for Uncollectible Accounts			
Medicare and other contractual allowances			4,255,648
Medicaid contractual allowances			313,952
Provision for uncollectible accounts			<u>360,588</u>
			<u>4,930,188</u>
Net Patient Service Revenue			<u>\$ 8,726,229</u>

	2005	
Inpatient	Outpatient	Total
\$ 343,127	\$ —	\$ 343,127
<u>107,354</u>	<u>—</u>	<u>107,354</u>
<u>450,481</u>	<u>0</u>	<u>450,481</u>
101,336	640,973	742,309
11,655	97,820	109,475
115,389	240,302	355,691
90,930	100,861	191,791
<u>37,389</u>	<u>425,848</u>	<u>463,237</u>
<u>356,699</u>	<u>1,505,804</u>	<u>1,862,503</u>
285,053	1,687,555	1,972,608
15,692	36,340	52,032
18,228	248,037	266,265
132,709	1,079,340	1,212,049
181,313	1,239,944	1,421,257
547,145	557,714	1,104,859
84,965	149,891	234,856
95,596	260,114	355,710
9,283	40,166	49,449
6,430	329,836	336,266
—	660,157	660,157
—	233,637	233,637
<u>—</u>	<u>1,671,593</u>	<u>1,671,593</u>
<u>1,376,414</u>	<u>8,194,324</u>	<u>9,570,738</u>
\$ <u>2,183,594</u>	\$ <u>9,700,128</u>	<u>11,883,722</u>
		4,039,135
		334,460
		<u>148,880</u>
		<u>4,522,475</u>
		\$ <u>7,361,247</u>

Ringgold County Hospital
Expenses
Years Ended June 30, 2006 and 2005

	Salaries	2006 Supplies and Expense	Total
Nursing Services			
Nursing administration	\$ 48,424	\$ 34,855	\$ 83,279
Medical and surgical	679,261	77,291	756,552
Operating room	228,689	157,663	386,352
Recovery room	—	37	37
Central services and supply	14,109	36,146	50,255
Emergency services	<u>27,172</u>	<u>10,221</u>	<u>37,393</u>
	<u>997,655</u>	<u>316,213</u>	<u>1,313,868</u>
Other Professional Services			
Laboratory	219,008	347,198	566,206
Transfusion service	—	25,758	25,758
Cardiology	11,278	6,859	18,137
Radiology	156,956	749,415	906,371
Ultrasound	—	—	0
Pharmacy	113,133	255,023	368,156
Respiratory therapy	102,242	74,627	176,869
Physical therapy	140,975	77,266	218,241
Medical records	85,134	44,992	130,126
Ambulance service	169,064	45,044	214,108
Dialysis	179,194	208,138	387,332
Emergency room physicians	141,133	129,323	270,456
Clinics	<u>1,486,476</u>	<u>341,462</u>	<u>1,827,938</u>
	<u>2,804,593</u>	<u>2,305,105</u>	<u>5,109,698</u>
General Services			
Dietary	134,452	64,654	199,106
Plant operation and maintenance	91,109	339,292	430,401
Housekeeping	81,365	18,099	99,464
Laundry and linen	<u>16,433</u>	<u>9,070</u>	<u>25,503</u>
	<u>323,359</u>	<u>431,115</u>	<u>754,474</u>
Administrative and Fiscal Services			
Administrative	326,372	646,099	972,471
Employee benefits	<u>—</u>	<u>1,021,647</u>	<u>1,021,647</u>
	<u>326,372</u>	<u>1,667,746</u>	<u>1,994,118</u>
Depreciation	<u>—</u>	<u>318,781</u>	<u>318,781</u>
	<u>\$ 4,451,979</u>	<u>\$ 5,038,960</u>	<u>\$ 9,490,939</u>

Salaries	2005 Supplies and Expense	Total
\$ 120,929	\$ 34,554	\$ 155,483
601,421	68,433	669,854
153,126	130,254	283,380
11,679	421	12,100
16,648	30,362	47,010
<u>22,019</u>	<u>14,265</u>	<u>36,284</u>
<u>925,822</u>	<u>278,289</u>	<u>1,204,111</u>
206,088	325,898	531,986
—	30,657	30,657
11,539	7,587	19,126
127,917	369,325	497,242
—	366,651	366,651
108,193	328,597	436,790
99,970	65,215	165,185
124,477	43,823	168,300
77,971	52,027	129,998
176,970	50,892	227,862
172,724	219,790	392,514
133,048	133,494	266,542
<u>1,377,667</u>	<u>360,944</u>	<u>1,738,611</u>
<u>2,616,564</u>	<u>2,354,900</u>	<u>4,971,464</u>
128,851	62,996	191,847
83,246	275,176	358,422
75,079	16,270	91,349
<u>19,962</u>	<u>7,957</u>	<u>27,919</u>
<u>307,138</u>	<u>362,399</u>	<u>669,537</u>
311,028	558,997	870,025
<u>—</u>	<u>815,261</u>	<u>815,261</u>
<u>311,028</u>	<u>1,374,258</u>	<u>1,685,286</u>
<u>—</u>	<u>340,378</u>	<u>340,378</u>
<u>\$ 4,160,552</u>	<u>\$ 4,710,224</u>	<u>\$ 8,870,776</u>

Ringgold County Hospital

Organizational Data

June 30, 2006

Type of Organization

County Public Hospital organized under Chapter 34 of the Code of Iowa, not subject to taxes on income or property.

Board of Trustees, Executive Committee

Vicki Sickels, Chairman, Mount Ayr, Iowa; term expires 2006
Kathi Braby, Vice Chairperson, Blockton Iowa; term expires 2010
Randy Gregg, Secretary, Mount Ayr, Iowa; term expires 2008

Board of Trustees, Members

Cindy Allen, Mount Ayr, Iowa; term expires 2006
Bill Armstrong, Mount Ayr, Iowa; term expires 2008
Mike Kemery, Clearfield, Iowa; term expires 2010
Fred Wilson, Clearfield, Iowa; term expires 2010

Administrator and Chief Executive Officer

Gordon W. Winkler, Mount Ayr, Iowa

Chief Financial Officer

Teresa Roberts, Mount Ayr, Iowa



**Independent Accountants' Report on Internal
Control Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of the Financial Statements Performed
in Accordance with *Government Auditing Standards***

Board of Trustees
Ringgold County Hospital
Mount Ayr, Iowa

We have audited the financial statements of Ringgold County Hospital as of and for the year ended June 30, 2006, and have issued our report thereon dated September 27, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Hospital's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and responses as item 06-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the

determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Compliance with Certain Provisions of Iowa Law

The following comments about the Hospital's compliance with certain provisions of Iowa law for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our independent audit of the financial statements of the Hospital for the year ended June 30, 2006. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily examined. In addition, it should be noted that our audit was not directed primarily toward obtaining knowledge of compliance with the following items. Our procedures do not provide a legal determination on the Hospital's compliance with those requirements.

Official Depository Banks

A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2006.

Certified Budget

Budget hearings were held and publications were made in accordance with Chapter 24.9 of the Code of Iowa. Hospital disbursements during the year ended June 30, 2006 did not exceed amounts budgeted.

Questionable Expenditure

We did not note any questionable expenditures that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979. However, the following was noted:

Criteria or Specific Requirement – Management is responsible for establishing policies regarding questionable expenditures.

Condition – The Board of Trustees has not adopted written policies surrounding questionable expenditures that establish expenses considered to meet the public purpose and the required documentation for those expenditures.

Context – Written policies are not in effect.

Effect – Employees may not be aware of potential questionable expenditures and the need to document their public purpose.

Cause – Written policies are not in place.

Recommendation – Management should establish policies to inform employees of what is considered expenses that meet the public purpose and require documentation of that purpose.

Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendations. Management will perform suggested action to enact policies to conform to this requirement.

The following was also noted:

Criteria or Specific Requirement – Questionable disbursements may not meet the public purpose requirements as defined in an Attorney General’s opinion dated April 25, 1979.

Condition – An expenditure of \$110 for Chamber of Commerce dues was noted that may not meet the public purpose requirements, as the public benefits to be derived have not been clearly documented.

Context – Clear documentation was not maintained.

Effect – Public funds may have been used for a questionable disbursement, which may not have met the public purpose requirements.

Cause – Clear documentation was not maintained.

Recommendation – Management should establish policies to inform employees of what is considered expenses that meet the public purpose and require documentation of that purpose.

Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendations. Management will perform suggested action to enact policies to conform to this requirement.

Travel Expense

No expenditures of Hospital money for travel expenses of spouses of Hospital officials were noted.

The mileage reimbursement rate for employees, which should not be in excess of the IRS allowable limits, was approved by the Board.

Business Transactions

We noted no transactions between Hospital and Hospital officials or employees other than those exempted by law; i.e., bankers on the Board of Trustees.

Trustee Minutes

No transactions were found that we believe should have been approved in the trustee minutes, but were not.

Deposits and Investments

We noted no instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Hospital’s investment policy.

Unclaimed Property

Prior to November 1, 2005, the Hospital was required to file an annual report of unclaimed property with the state treasurer in accordance with Chapter 556.11 of the Code of Iowa. We noted the following exception:

Criteria or Specific Requirement – Hospital management is responsible for filing a report of unclaimed property or a negative report if no unclaimed property is on hand.

Condition – A report noting no unclaimed property was not filed in 2005 for the year ended June 30, 2004.

Context – The Hospital had no unclaimed property, but no report was filed.

Effect – Requirements were not met under Chapter 556.11 of the Code of Iowa.

Cause – Necessary reporting was not made in the current fiscal year.

Recommendation – Management should ensure necessary reporting is completed each year.

Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendations. Management will perform suggested action to ensure all reporting is made in accordance with the Code of Iowa.

Disbursements for Equipment and Supplies

We did not note any disbursements for equipment or supplies that we believe were not in accordance with Chapter 347.13(3) of the Code of Iowa. However, we did note that the Hospital did not have a formal policy on the purchase of assets.

Criteria or Specific Requirement – Hospital management is responsible for having a policy for procuring equipment under bidding and contracting requirements.

Condition – The Board of Trustees has not adopted a policy for procuring equipment under bidding and contracting requirements.

Context – A written policy is not in effect.

Effect – Requirements were not met under Chapter 347.13(3) of the Code of Iowa.

Cause – A written policy is not in place.

Recommendation – Management should establish a policy to set forth the requirements for procuring equipment under bidding and contracting requirements.

Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendations. Management will perform suggested action to conform to this requirement.

Compensation of Hospital Administrator, Assistants and Employees

No instances were noted in which compensation for the administrator, assistants or employees was determined other than in accordance with Chapter 347.13(5) of the Code of Iowa.

Internal Revenue Service Information Returns and Outside Services

We noted no instances where the Hospital failed to properly prepare a Form 1099 for outside services of \$600 or more or failed to properly classify workers as independent contractors versus employees.

Publication of Bills Allowed and Salaries

Chapters 347.13(14) of the Code of Iowa states “There shall be published quarterly in each of the official newspapers of the county as selected by the Board of Supervisors pursuant to Section 349.1 the schedule of bills allowed and there shall be published annually in such newspapers the schedule of salaries paid by job classification and category...”

Criteria or Specific Requirement – Hospital management is responsible for publishing quarterly the schedule of bills allowed and annually the schedule of salaries paid by job classification and category.

Condition – The Hospital did not publish annually the schedule of salaries paid by category but did publish quarterly the schedule of bills allowed.

Context – No publishing occurred.

Effect – Requirements were not met under Chapter 347.13(14) of the Code of Iowa.

Cause – No publishing occurred.

Recommendation – Management should publish annually the schedule of salaries paid by job classification and category.

Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendations. Management will perform suggested action to conform to this requirement.

Publication of Notice

Chapter 11.14 of the Code of Iowa requires notice that the audit report has been filed with the state shall be forwarded immediately to each newspaper, radio station or television station located in the county which is under audit. The Hospital did file its report with the state and published the required notice.

* * * * *

Board of Trustees
Ringgold County Hospital
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This report is intended solely for the information and use of the governing body and management and the State of Iowa, and is not intended to be and should not be used by anyone other than these specified parties.

/s/ **BKD, LLP**

Kansas City, Missouri
September 27, 2006

Ringgold County Hospital

Schedule of Findings and Responses

Year Ended June 30, 2006

Reference Number	Finding	Questioned Costs
06-1	<p>Criteria or Specific Requirement—Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition—Certain individuals perform or have the ability to perform duties in the cash disbursements/accounts payable, cash receipts/accounts receivable and payroll cycles that are incompatible from a control perspective.</p> <p>Context—In each of the accounting cycles, certain individuals have the ability to perform incompatible access, recording and monitoring functions.</p> <p>Effect—Potentially material misstatements in the financial statements or material misappropriations of assets due to error or fraud could occur and not be prevented or detected in a timely manner.</p> <p>Cause—Duties in the three accounting cycles are not adequately segregated and monitoring or other compensating controls are insufficient.</p> <p>Recommendation—Management should periodically review the costs versus the benefits of further segregation of duties or addition of monitoring or other compensating controls and implement those changes it deems appropriate for which benefits are determined to exceed costs.</p> <p>Views of Responsible Officials and Planned Corrective Actions—Management concurs with the finding and recommendation. Management will reconsider the existing assignment of duties and determine whether the cost of further segregation exceeds the expected benefits.</p>	

Ringgold County Hospital



Board of Trustees
Ringgold County Hospital
Mount Ayr, Iowa

As part of our audit of the financial statements of Ringgold County Hospital (Hospital) for the year ended June 30, 2006, we studied and evaluated the Hospital's internal control structure. Because the study and evaluation was only part of the overall audit plan regarding the financial statements, it was not intended to be a complete review of all your accounting procedures and, therefore, would not necessarily disclose all reportable conditions or opportunities for improvement. A reportable condition involves matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Hospital's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. We observed the following matters and offer these comments and suggestions.

Critical Access Hospital

On September 1, 2005, the Hospital was designated as a Critical Access Hospital (CAH) for purposes of the Medicare Program. As a result of this designation, the Hospital is being paid based on a cost reimbursement methodology by the Medicare Program for services rendered. Due to the change in the methodology by which the Hospital is being reimbursed, the Hospital should review each department's revenues and expenses to make sure they are being grouped appropriately in the general ledger and in the Hospital's Medicare and Medicaid cost reports. In addition, the Hospital should perform a review of the detail documentation and statistics used to prepare the Hospital's cost report. This review allows the Hospital to evaluate the processes and underlying support it uses to accumulate cost report information and the statistics used to allocate costs on the Medicare cost report, and determine if an alternative method or process is available for the Hospital to use.

In connection with the change to CAH, management should complete an interim cost report to evaluate Medicare interim rates, identify any significant overpayments or underpayments and monitor the cost reporting data that needs to be accumulated throughout the year. Management and the Board will be able to use the information provided from the interim cost report in their planning and decision-making process.

Segregation of Duties

Certain matters regarding internal controls were included in the Independent Accountants' Report on Compliance and Internal Control Over Financial Reporting Based on the Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*.

Segregation of accounting duties is an essential element of effective internal controls, involving the separation of custody of assets from related recording of transactions. Segregation of conflicting duties within the Hospital's accounting department may be difficult because of the limited number of personnel. However, there may be compensating controls management could implement to reduce the possibility of errors or irregularities going undetected in the normal course of business.

We encourage you to limit, to the extent possible, performance of incompatible duties by individuals in the Hospital's accounting department.

Accounts Receivable

We noted the Hospital does not maintain a detailed accounts receivable subsidiary ledger on a monthly basis. We recommend the Hospital either print or electronically archive a file of the accounts receivable detail subsidiary ledger each month and reconcile the detail subsidiary ledger to the general ledger. Any differences noted should be investigated and resolved in a timely manner.

Adjustments at Year End

During the audit, we recommended adjustments be made to the several different accrued liability accounts and accounts receivable allowance accounts. These adjustments had a significant impact on the financial statements at year end and should be recorded during the year to properly reflect the Hospital's financial position. We recommend the Hospital implement procedures to evaluate these accounts on a monthly basis and evaluate any changes during the year that may impact these accounts and consider the changes in evaluating their impact on these accounts.

Fixed Asset Report

We noted the original fixed asset reports did not agree to the general ledger for accumulated depreciation. This was due to a problem that occurred with the HMS Fixed Asset software which the Hospital was aware of and working with HMS to resolve. Subsequent to year end, the Hospital was able to reconcile the fixed asset reports to the general ledger and HMS was able to modify their system to appropriately calculate accumulated depreciation. We recommend the Hospital reconcile the fixed asset reports to the general ledger monthly and investigate any differences on a timely basis in an attempt to avoid this type of issue in the future.

Bank Reconciliation

During testing of cash accounts, we noted several reconciling items on the bank reconciliations that carried over from one month to the next. The reconciling items were primarily differences between the remittance advices received and the actual deposits. These reconciling items were left open until the differences could be determined or a remittance advice was received. We recommend the Hospital review the process used to reconcile the bank accounts and their process for posting differences and investigate them immediately so that they do not remain on the bank reconciliation for several months in a row.

Charge Audits

During testing of accounts receivable, we noted charge audits were not performed during the current year. The performance of charge audits allows the Hospital to verify the amounts reimbursed from third-party payers for services provided with the contractual arrangements. This will help the Hospital ensure they are being paid the appropriate amounts for the services provided. We recommend charge audits be performed on a regular basis to ensure that the proper amounts are being charged for the variety of services provided by the Hospital and that the Hospital is being reimbursed at the contractual amounts.

Expense Reimbursement Reports

During review of expense reimbursement reports, we noted the Chief Executive Officer (CEO) approved all expense reimbursements including their own expense reimbursements. In order to strengthen internal controls over expense reimbursements and document proper approval of CEO expense reimbursements, we recommend the Board review the CEO's expense reimbursements.

Independent Assessment of Corporate Compliance Program

In the Office of Inspector General's (OIG) Supplemental Compliance Program Guidance for Hospitals of January 31, 2005, the OIG recommends that, "Hospitals should regularly review the implementation and execution of their compliance program elements. This review should be conducted at least annually and should include an assessment of each of the basic elements individually, as well as the overall success of the program." Furthermore, the OIG recommends that the review be conducted by individuals "independent of line management."

We understand through discussions with management and review of the corporate compliance questionnaire, that the Hospital is operating under a corporate compliance program. During 2006, the Hospital conducted compliance committee meetings, performed quarterly chart reviews and conducted compliance training and education. All of these functions contribute to the effectiveness of a corporate compliance program and should be continued in future years.

Although the Hospital is performing several functions related to its corporate compliance program, we noted on the corporate compliance questionnaire that the Hospital marked that it has not conducted an independent review of its corporate compliance program, prepared an audit work plan, reviewed the charge description master or conducted a risk assessment. We recommend the Hospital consider conducting an independent review of its corporate compliance program, preparing an audit work plan and performing a risk assessment of the corporate compliance program as suggested by the OIG.

Risk Assessment Audit Standards

During the past year, the AICPA issued the Risk Assessment Suite of Standards (Statements of Auditing Standards Numbers 104 through 111). These Statements establish standards and provide guidance concerning the auditor's assessment of risks of material misstatement in a financial statement audit and provide guidance on the design and performance of the audit procedures whose nature, timing and extent are designed to address the assessed risks. In addition, the Statements establish standards and guidance on planning and supervision, the nature of audit evidence and evaluating whether the audit evidence obtained affords a reasonable basis for an opinion on the financial statements.

Overall, the primary objective of these Statements is to enhance the auditor's application of the audit risk model in conducting audits by specifying a more in-depth understanding of the organization and its environment, including its internal control, to identify the risks of material misstatement in the financial statements and what the organization is doing to mitigate the risks. These standards are effective for fiscal years beginning on or after December 15, 2006.

These Standards will have a significant impact on the Hospital's audit once they become effective, which will most likely be June 30, 2008.

* * * * *

We appreciate the opportunity to present these comments and suggestions. This letter does not express an opinion on the Hospital's overall internal control structure; it does, however, include items that we believe merit your consideration. We can discuss these matters further at your convenience and provide any implementation assistance for changes or improvements you may require.

This letter is intended solely for the information and use of the Board of Trustees and management and is not intended to be and should not be used by anyone other than these specified parties.

/s/ **BKD, LLP**

Kansas City, Missouri
September 27, 2006